

SBT REPLACEMENT PLAN

Six months ago, Senate Republicans introduced a plan to replace the SBT – called the Business & Economic Stimulus Tax plan (BEST).

Senate Republicans worked with the House and the Governor to create an SBT replacement plan that incorporates some of the best features of other plans — the Senate's BEST plan, the Michigan Business Tax, and plans put forth by the MI Chamber, the Detroit and Grand Rapids Chambers, and the Governor's proposal — all into one.

The plan is fair and balanced plan, and provides relief to all Michigan businesses – from small businesses, to the Big Three manufacturers, to companies vested in R&D. It provides significant personal property tax relief to our state's largest employers and Michigan manufacturers, without unfairly saddling other firms with huge tax increases.

The new SBT Replacement plan provides:

Fair, equitable tax

Creates a fair, equitable tax structure, allows companies to expand, and encourages new economic development.

Bring back businesses

Provides a strong incentive for businesses to come back home to Michigan. The plan gives a much-needed boost to Michigan's lagging economy.

Broad-Based/Low Rate

The plan involves a reasonable business income tax and a margins tax; firms with gross receipts under \$350,000 pay nothing.

Generous Personal Property Tax Relief

The proposal provides 24 mills exemption for industrial personal property and 12 mills for commercial personal property.

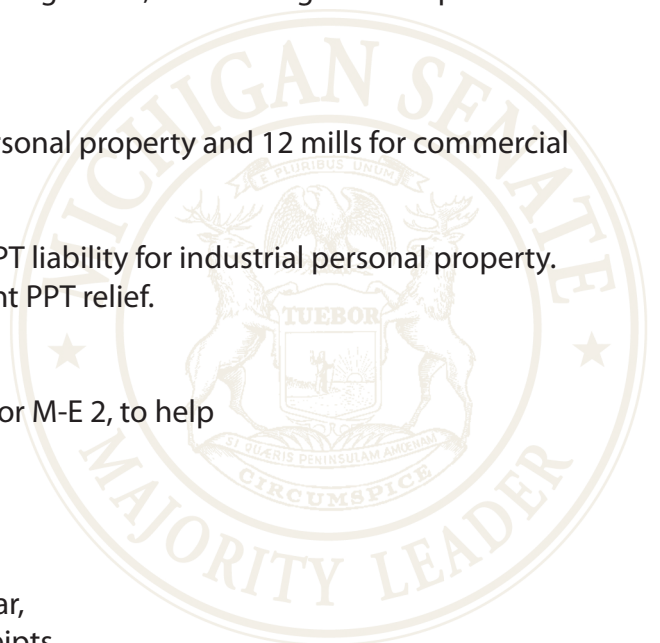
It allows for a 35-percent refundable credit on remaining PPT liability for industrial personal property. This combined with 24 mills exemption results in 65-percent PPT relief.

Significant Exemption for Small Businesses

The plan includes a "Michigan Entrepreneurial Exemption," or M-E 2, to help small businesses grow.

Firms pay no taxes for up to five years if:

- the firm or business adds 20 new jobs;
- makes an investment of \$1.25 million per year,
- and claims less than \$25 million in gross receipts.



Michigan Business Tax Agreement Summary

June 13, 2007

Revenue Replacement

- Revenue neutral—rates will be calculated to reflect provisions below

Tax Base

- 2/3 margins tax (sales less purchases of tangible property from other firms)
- 1/3 business income
- Capital stock tax for banks
- Increase insurance premiums tax to 1.25%, plus credits
- Business income tax rate: 4.84 %
- Margins tax: 0.764%

Personal Property Tax Relief

- 12 mills for commercial personal property
- 24 mills for industrial personal property
- 35% refundable credit on remaining industrial personal property
- Telephone credit corresponding to commercial personal property

Credits

- Investment and compensation credits capped at 65% of liability
- R&D credit capped at 75% of liability
- ME-2 Entrepreneurial credit

Small Business Treatment (Cost: \$120 million)

- Allow qualifying firms to pay a 1.8% tax on adjusted business income
- Increase officer compensation disqualifiers to \$160,000 to \$180,000
- Increase gross receipts threshold phase-out to \$18-20 million
- Increase aggregate business income disqualifier to \$1.3 million
- Allow flow-through entities to access the compensation credit

Revenue Trigger

- Year 1: 5% over FY 08 base
- Years 2 and 3: Growth over personal income + 1%
- FY08 base reflects revenue neutral SBT yield plus personal property tax millage reductions, excluding insurance
- Half of overage refunded to business taxpayers; half deposited into to BSF
- Trigger provision sunsets after 3 years

